

Message Text

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SUBJECT: APPROVAL FOR FOREIGN BANK OPERATIONS IN SPAIN

1. SUMMARY: ON MAY 16 THE COUNCIL OF MINISTERS APPROVED A ROYAL DECREE AUTHORIZING FOREIGN BANKS TO SET UP BRANCHES OR WHOLLY OWNED SUBSIDIARIES IN SPAIN. THE DECREE BECOMES EFFECTIVE IMMEDIATELY UPON PUBLICATION IN THE OFFICIAL GAZETTE, WHICH SHOULD OCCUR IN THE NEXT DAY OR TWO. THE SPANISH BANKING AUTHORITIES ARE EXPECTED TO PROCEED SOMEWHAT CAUTIOUSLY IN CONSIDERING APPLICATIONS. THEY WILL PROBABLY APPROVE FIRST THE PETITIONS OF A SMALL NUMBER OF BANKS, SAY 8-10 WITHIN THE FIRST YEAR, THAT HAVE BEEN THE MOST ACTIVE IN THE SPANISH MARKET AND REPRESENT SPAIN'S MAJOR TRADING PARTNERS (THE U.S., GERMANY, SWITZERLAND AND THE UK; AND UNCLASSIFIED

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PERHAPS FRANCE AND JAPAN). END SUMMARY.

2. GOVERNMENT APPROVAL OF FOREIGN BANK BRANCHES HAD BEEN EXPECTED FOR ALMOST A YEAR. FINAL ANNOUNCEMENT WAS DELAYED SO LONG BECAUSE OF REPEATED OBJECTIONS FROM MORE CONSERVATIVE ELEMENTS OF THE SPANISH BANKING COMMUNITY WHO FEARED INCREASED COMPETITION. BUT INCREASED

COMPETITION IS JUST WHAT THE GOVERNMENT IS LOOKING FOR AS PART OF ITS GENERAL EFFORT TO RESTRUCTURE THE ECONOMY ALONG FREE MARKET LINES. ALSO, THE GOVERNMENT REALIZES THAT GROWING SPANISH COMMERCIAL BANK OPERATIONS OVERSEAS MUST BE BASED ON RECIPROCITY, AND THAT IF THEY DELAYED MUCH LONGER, OTHER COUNTRIES MIGHT HAVE BEGUN TO RETALIATE.

3. EXACT DETAILS AWAIT PUBLICATION OF THE FINAL TEXT BUT AN ADVANCE COPY PUBLISHED IN THE TRADE PRESS GIVES THE FOLLOWING DETAILS: FOREIGN BANKS WILL BE ALLOWED TO OPEN UP TO THREE BRANCHES. REQUIRED CAPITAL IS 750 MILLION PESETAS (APPROXIMATELY \$9,375,000). WHOLLY OWNED SUBSIDIARIES OF FOREIGN BANKS ARE ALLOWED BUT THE CAPITAL REQUIREMENTS ARE DOUBLE (1.5 BILLION PESETAS). LOCAL CURRENCY ACTIVITY IS LIMITED TO 40 PERCENT OF THE OVERALL LOAN PORTFOLIO PLUS GOVERNMENT SECURITIES AND REQUIRED RESERVES. BANKS WILL NOT BE ALLOWED TO OWN OR TRADE LISTED STOCKS OF SPANISH COMPANIES. THESE LAST TWO MEASURES ARE DESIGNED TO LIMIT THE FOREIGN BANKS' ABILITY TO ACQUIRE TOO LARGE A SHARE OF THE DOMESTIC MARKET AND THUS ARE A CONCESSION TO THE SPANISH BANKING COMMUNITY.

4. SOME 20 FOREIGN BANKS ARE KNOWN TO BE INTERESTED IN OPENING BRANCHES. OF THESE ABOUT HALF ARE AMERICAN, UNCLASSIFIED

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INCLUDING MOST OF THE MAJOR MONEY MARKET BANKS, (SEVERAL OF WHICH HAVE BEEN ACTIVELY PREPARING PLANS FOR HIRING STAFF, RENTING SPACE, ETC.). THE BANK OF SPAIN IS EXPECTED TO GIVE CAREFUL STUDY TO EACH APPLICATION AND WILL PROBABLY SEEK A MIX OF COUNTRIES AND BANKS THAT REPRESENT SPAIN'S MAJOR TRADING PARTNERS AND MOST ACTIVE LENDERS.

5. MOST OF THE MAJOR AMERICAN BANKS ARE EVENTUALLY EXPECTED TO SEEK SPANISH BRANCHES. THOSE WE TALK TO DO NOT EXPECT THE BRANCHES TO BE ANY MORE PROFITABLE, IN THE SHORT TERM, THAN THEIR ALREADY QUITE LUCRATIVE REPRESENTATIVE OFFICES. IF ANYTHING, THE INCREASED OVERHEAD, DIVIDEND OR PROFIT REPATRIATION RESTRICTIONS (YET TO BE ANNOUNCED) AND GOVERNMENT REGULATION MAY CUT PROFITS A BIT. BUT SPAIN IS LOOKED UPON AS A GROWING ECONOMY AND MANY OF THE BANKS WILL FEEL COMPELLED TO FOLLOW THE COMPETITION.

6. WE WILL PROVIDE MORE DETAILED ANALYSIS OF THE OPERATING FRAMEWORK WHEN THE ROYAL DECREE IS PUBLISHED. EATON

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